

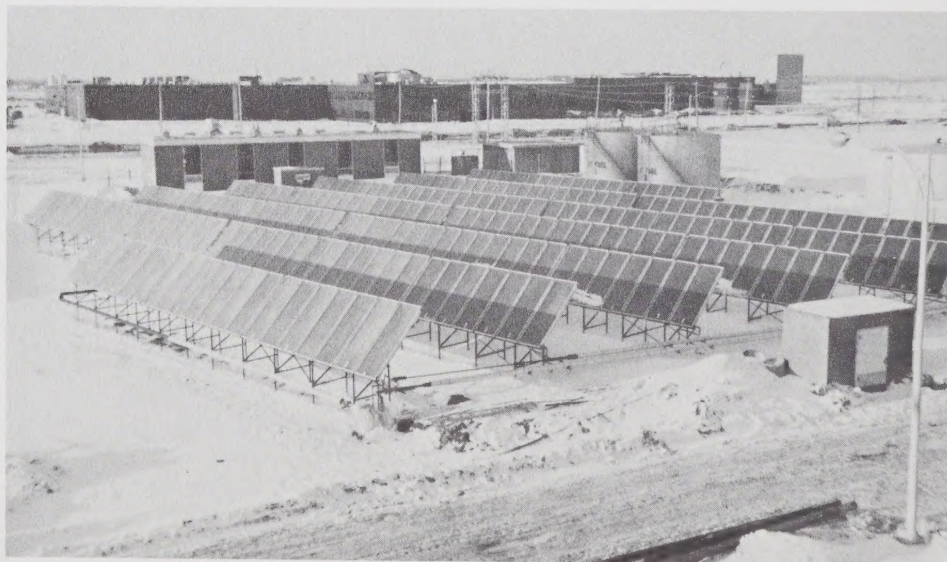
PETRO-SUN INC.
ANNUAL REPORT 1980



CORPORATE PROFILE



- Petro-Sun Inc. is a total energy company active in all facets of conventional and renewable energies: Solar Energy, Biomass Industrial Wood Energy and Oil and Gas Exploration.
- The Company's Solar Division is engaged in the commercial development, engineering, manufacturing and marketing of fully integrated solar heating and cooling systems for residential, commercial and industrial sectors in both domestic and foreign markets.
- The Company's Petroleum Division, headquartered in Toronto, is engaged in the acquisition and drilling of petroleum lands in North America.
- Thermo Solar operates as a division with manufacturing, engineering and research and development facilities for high temperature solar collectors in Montreal, engineering and manufacturing facilities in Toronto, with over 125 dealer/representatives throughout Canada, the United States, Europe and the Middle and Far East.
- Solarplast Ltd., the 50% -owned affiliate, has manufacturing facilities for low temperature solar collectors in London, Ontario. This new manufacturing plant, established in 1980, has a collector manufacturing capacity which exceeds 25,000 collectors per year.
- The Company's newly-formed Bio-Energy Division will be involved with wood waste power plants for industrial and commercial use and will involve the engineering, manufacturing of sophisticated equipment which will be used to provide heat, steam and electricity to industrial manufacturing companies using wood waste as a prime fuel.



Air Canada Maintenance Base, Dorval, Quebec: 380 Thermo Solar® Commercial collectors provide energy required for process water heating.

CHAIRMAN'S REPORT TO SHAREHOLDERS

For Petro-Sun Inc., 1980 was a year of substantial growth and development.

In keeping with the Company's stated objectives, Petro-Sun's efforts, during the year, addressed potential growth aspects within the petroleum sector and concentrated on the further expansion and diversification of its solar energy division.

SALES

Company total operating revenues increased over 150% to \$2.4 million in 1980 as compared to \$950,000.00 in 1979. This 1.45 million increase is largely attributable to the Company's accelerated marketing efforts in both domestic and international markets.

PROFITS

Net profits of \$500,000.00 were reinvested in the Company and were used to expand Petro-Sun's product line, to sustain the Company's research and development program and to further strengthen its international market share.

FINANCING

During 1980, Petro-Sun successfully completed the sale of 500,000 treasury shares netting the Company in excess of \$1.5 million. Proceeds of this underwriting facilitated the expansion of Petro Sun manufacturing facilities in Toronto and Montreal and met budgeted capital expenditures deemed necessary by the Company's petroleum division.

THERMO SOLAR DIVISION

Petro-Sun's Thermo Solar division, a fully-integrated solar energy operation engaged in the commercial development, engineering and marketing of residential, commercial and industrial solar energy systems in North America and abroad, recorded excellent results in 1980.

Domestic

Encouraged by increasing demand for solar energy development and Government initiatives at the Federal, Provincial and State levels in North America, Thermo Solar aggressively pursued new market opportunities, and concentrated on the expansion and strengthening of its market position and the establishment of a fully operational manufacturing facility in Ontario. The

Company's high level of activity, throughout the year, positioned Petro-Sun as Canada's leading organization.

International

The Company's marketing efforts, outside of North America, were extensive and focused on virtually every continent, except Australia. The Company initiated numerous licence agreements, either signed or in principle, with countries including France, Portugal, Belgium, the Netherlands, Switzerland and Jamaica and negotiated two major export contracts through joint ventures in Egypt and Kenya.

The successful conclusion of these two 50/50 Joint Venture Agreements with local Government and private industrial investors in Egypt and Kenya involves the immediate establishment of two manufacturing companies, Petro-Sun Egypt and Petro-Sun Africa in Cairo and Nairobi respectively. Both facilities will manufacture Thermo Solar® product line and are expected to be in full production by the third quarter of 1981.

These two Petro-Sun Joint Ventures present extensive market potential, as large as that offered by the Canadian solar market, and are a significant achievement for the company. The Government of Egypt, for example, intends to install 10,000 solar collectors for domestic and process water heating by 1982. Kenya, on the other hand, offers maximum solar availability and, is 100%-dependent on foreign oil and gas imports for its energy needs. Consequently, the Kenyan Government is seriously committed to implementing a strong solar industry for internal use and for the export of products to neighbouring countries.



Typical Thermo Syphon solar water heaters installed in Nairobi, Kenya, as part of a Transfer of Technology and Demonstration Contract in cooperation with the Canadian Government. This demonstration project resulted in the Joint Venture Agreement to form Petro-Sun Africa.



Gaza Food Products Ltd., Montreal, where 144 THERMO SOLAR® "Drain Down" solar collectors were installed to heat in excess of 20,000 litres/day of process hot water.

Other Highlights

Petro-Sun Inc. has also made a concerted effort, during 1980, to expand its Thermo Solar® product line. To this end, we are pleased to report some of the Company's achievements:

- In 1980, the Company reached a licence agreement with a major Swiss organization to manufacture and market the world's first Multi-Stage/Solar Desalination Plant.
- The sale of solar collectors, in Canada, during the year exceeded Company initial projections. Petro-Sun Inc. accounted for more than 50% of the total installed square footage of solar collectors.
- The Company is generating extensive sales activity in Canada as a result of the Federal and Provincial Governments Solar Energy Programs, which guarantee initially a budget in excess of \$200 million for the purchase and installation of solar energy equipment for Federal and Provincial Government buildings as well as large private sector demonstration projects for the next four years.
- Petro-Sun Inc., in cooperation with the Canadian International Development Agency (C.I.D.A.) and Industry, Trade and Commerce (IT&C) is actively involved in numerous market and Feasibility Studies to determine the potential of future Licence or Joint Venture Agreements outside of North America.

NEW BIO-ENERGY DIVISION

In a continuing effort to diversify and expand Company operations and move further towards Company objectives of achieving a total energy concept, Petro-Sun Inc. committed in 1980 to establish a Biomass Industrial Wood Energy Division. This new Division will concentrate on the design, manufacture and sale of wood waste handling systems for industrial and commercial use and will be located in Petro-Sun's Toronto and Montreal manufacturing plants.

We are pleased to report that, at the time of writing, we are finalizing a Distribution and Working Agreement with Nordfab of Denmark, to acquire the necessary bio-energy technology and expertise essential to the engineering and design of wood waste power plants.

Petro-Sun's new Biomass Industrial

Wood Energy Division will concentrate on replacing oil and gas burning boilers with wood waste-fed power plants. Marketing efforts will be directed towards industry sectors with ready access to wood by-products, including door, window and furniture manufacturers, lumber and sawmill operations. The Company expects to generate sales as a result of industry demand for efficient low cost heating systems and Federal and Provincial Government energy conservation incentives, involving grants of up to \$50,000.00, directed at "off oil" substitution systems.

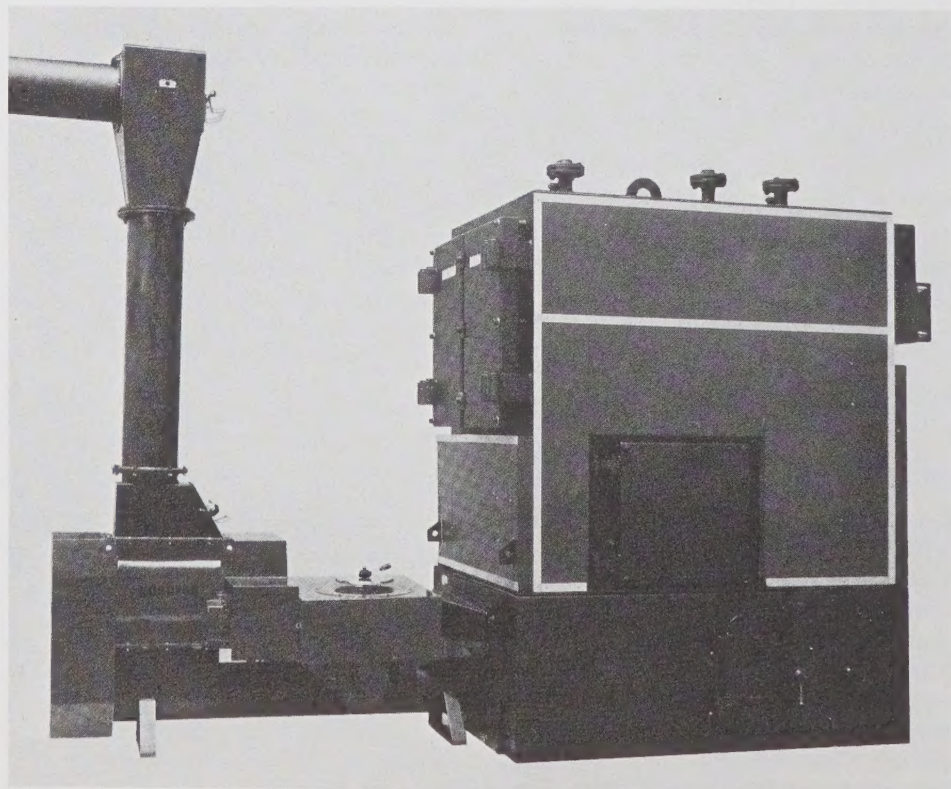
RESEARCH AND DEVELOPMENT

Petro-Sun recognizes that a long-term, consistent and growing research and development commitments is vital to its ability to maintain a leadership position within the expanding solar industry. Subsequently, the Company devotes a significant portion of financial and manpower resources towards the development of new processes and products and the maintenance of research skills and facilities inherent to the Company's continuing progress.

PETROLEUM DIVISION

As part of its policy of building and developing a total energy corporation, Petro-Sun greatly accelerated its activities within the petroleum sector in 1980. The Company participated in the drilling and completion of four successful wells during this past fiscal year. These wells, which are located in the United States, are considered capable of producing either oil or gas.

Fully automatic Nordfab combustion equipment, including wood waste handling and boiler systems, designed and engineered by the new Biomass Industrial Wood Energy Division.



Shep Field, Texas

Company efforts concentrated on the Shep Field region, Taylor County, Texas resulted in the drilling and completion of four oil wells. A fifth well, in close proximity, was drilled subsequent to the Company's year-end and will be tested in the near future.

Two of the Company's wells, at the present time, yield approximately 10 barrels of oil per day; the remaining two wells are shut-in pending gas pipeline connection. It is anticipated that the gas purchaser will tie all four wells into its pipeline system in the immediate future. Such connection will have a dual benefit to Petro-Sun in that it will enable the Company to produce and sell gas and also to increase its production of oil. This additional output is expected to have a material effect on the Company's cash flow during its 1981 fiscal year.



Shep Field, Taylor County, Texas, where two of the four wells drilled are already in production.

The initial phase of Petro-Sun's exploration activity in this region has been confined to an area of former production. Consequently, drilling activity was not expected to encounter high production because of previous oil extraction but rather was directed towards ensuring a positive cash flow and an acceptable rate of return.

Company leases are surrounded by a number of prolific oil fields which have been onstream for numerous years and which have yielded several millions of barrels of oil. Substantial exploration activity in this general area strongly indicates this area to be a prime region of oil and gas discoveries.

Petro-Sun also believes this to be a region of great potential and has, in conjunction with its partners, acquired additional leases in this area. Company

holdings in and around the Shep Field now exceed 4,000 gross acres.

Other Areas of Activity – United States and Canada

In keeping with the Company's conservative approach to oil and gas exploration, Petro-Sun acquired, in 1980, a 25% working interest in two other leases, each approximating 200 acres, in Jones and Coleman Counties, Texas. These prospects are surrounded by existing producing wells and are considered to be very low-risk propositions.

During the second quarter of 1980, Petro-Sun and its partners also acquired a 25% working interest in a 1,000 acre lease block in Lincoln County, Oklahoma. This prospect area is known to cover several horizons that are productive in the area. During the 1960's numerous wells drilled on the offset acreage were completed as producers and more recently, an area east of this block has been the site of considerable activity and has been known to yield important discoveries.

The Company intends to drill a 7,200 foot well on this lease in the very near future.

Due to continuing Federal/Provincial confrontation, the Company elected to defer any new exploration activity in Canada in 1980 and concentrated its efforts in the United States.

OUTLOOK

The outlook for 1981 is most challenging and favourable. The Company has, since its formation, assembled an energetic, aggressive and innovative management group and has succeeded in assuming a leadership role within a vast and expanding industry.

At the present rate of growth, Company sales for solar collectors are expected to increase very significantly in 1981. Continued emphasis will be placed on expanding the Company's domestic and international market penetration.

Petro-Sun's new Biomass Industrial Wood Energy Division is also expected to contribute to the Company's overall earnings in the coming year. Quotations and proposals totalling in excess of \$600,000.00 are presently under negotiation in Canada, for the above new Division.

Within the petroleum sector, the Company intends to conduct conservative exploration activities within its presently-held areas of interest.

The Company is well-positioned to take advantage of future growth opportunities and anticipates a reasonable return on investment, significant increases in sales and further expansion opportunities in 1981.

On behalf of the Board of Directors, may we take this opportunity to thank our shareholders for their confidence and support and to thank our partners in the petroleum and solar industries for their dedication and loyalty.

On behalf of the Board,

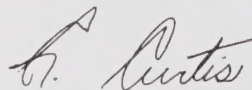
G.M. Curtis
*Chairman of the Board and
Chief Executive Officer*

Jacques R. Sicotte
*President
General Manager*

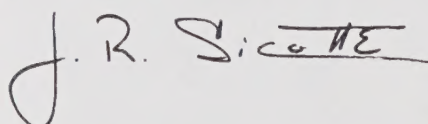
As at December 31, 1980

	December 31	
	1980	1979
ASSETS		
<i>Current assets</i>		
Cash and short-term deposits	\$1,224,443	\$ 352,922
Marketable securities, at cost (quoted market value \$109,695; 1979 - \$592,388)	148,915	337,356
Accounts receivable	918,293	315,150
Inventories (Note 2)	842,474	154,726
Prepaid expenses	18,493	5,221
	3,152,618	1,165,375
Investment (Note 3)	59,093	—
Oil and gas interests (Note 4)	649,360	163,919
Fixed assets (Note 5)	149,216	24,780
<i>Other assets</i>		
Development costs	44,588	60,326
Franchise rights	13,111	16,257
	\$4,067,986	\$1,430,657
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 589,176	\$ 236,133
SHAREHOLDERS' EQUITY		
<i>Capital stock (Notes 6 and 7)</i>		
Authorized		
10,000,000 common shares without par value		
Issued		
3,872,360 common shares (1979 - 3,259,860)	3,398,708	1,644,339
Retained earnings (deficit)	80,102	(449,815)
	3,478,810	1,194,524
	\$4,067,986	\$1,430,657

On behalf of the Board



G.M. Curtis, Director



J.R. Sicotte, Director

STATEMENT OF INCOME

PETRO-SUN INC.

	For the year ended December 31, 1980	For the period from October 2 to December 31, 1979 <i>(Note 14)</i>	For the year ended December 31, 1979 <i>(Note 14)</i>
<i>Sales and other operating revenues</i>	\$2,193,358	\$ 92,638	\$ 950,490
Cost of sales	1,499,853	22,370	651,839
	693,505	70,268	298,651
Other income			
Interest	150,491	11,013	26,618
Oil and gas revenue	26,273	—	—
Dividends	—	—	2,280
Other	—	—	10,832
	870,269	81,281	338,381
Expenses			
Selling	289,975	40,840	115,384
Administrative	451,644	95,560	264,751
Depreciation, amortization and depletion	35,347	6,141	24,089
Interest and bank charges	4,009	1,188	11,594
	780,975	143,729	415,818
<i>Profit (loss) before undernoted items</i>	89,294	(62,448)	(77,437)
Write-off of mining properties and rights and deferred mining exploration and development expenditures	—	(774,109)	(779,464)
Equity loss of an affiliated company	(4,659)	—	—
Income taxes	(39,800)	26,300	29,717
<i>Net profit (loss) before extraordinary items</i>	44,835	(810,257)	(827,184)
Extraordinary items			
Gain on sale of marketable securities, net of income taxes	445,282	—	—
Reduction of income taxes on application of prior years' losses	39,800	—	—
<i>Net profit (loss)</i>	\$ 529,917	(810,257)	(827,184)
Net profit (loss) per share before extraordinary items	\$0.01	(\$0.25)	(\$0.25)
Net profit (loss) per share	\$0.15	(\$0.25)	(\$0.25)

STATEMENT OF DEFICIT

	For the year ended December 31, 1980	For the period from October 2 to December 31, 1979
(Deficit) retained earnings, opening	(\$449,815)	\$360,442
Net profit (loss)	529,917	(810,257)
Retained earnings (deficit), closing	\$ 80,102	(\$449,815)

PETRO-SUN INC.**STATEMENT OF CHANGES
IN FINANCIAL POSITION**

		For the year ended December 31, 1980	For the period from October 2 to December 31, 1979
<i>Source of funds</i>			
From operations			
Net profit before extraordinary items		\$ 44,835	\$ —
Items not affecting working capital			
Depreciation of fixed assets	\$23,228		
Depletion of oil and gas interests	5,500		
Amortization of other assets	18,884		
		47,612	
Deferred income taxes		39,800	—
Equity loss of an affiliated company		4,659	—
		136,906	—
Gain on sale of marketable securities		445,282	—
Issue of capital stock (Note 6)		1,754,369	—
		2,336,557	—
<i>Application of funds</i>			
From operations			
Net loss		—	810,257
Items not affecting working capital			
Depreciation and amortization		—	(6,141)
Deferred income taxes		—	26,300
Write-off of mining properties and rights and deferred mining exploration and development expenditures		—	(774,109)
		—	56,307
Investment in fixed assets		147,664	7,179
Acquisition of investment		63,752	—
Investment in oil and gas interests		490,941	31,062
Due to shareholders		—	6,890
		702,357	101,438
<i>Increase (decrease) in working capital</i>		1,634,200	(101,438)
Working capital, opening		929,242	1,030,680
Working capital, closing		\$2,563,442	\$ 929,242

AUDITORS' REPORT

The Shareholders
Petro-Sun Inc.

We have examined the balance sheet of Petro-Sun Inc. as at December 31, 1980 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Montreal, Quebec
March 25, 1981

Touche Ross & Co.
Chartered Accountants

December 31, 1980
1. Significant accounting policies
a) Inventories

Inventories are stated at the lower of cost and net realizable value.

b) Investment

The investment is accounted for on the equity basis.

c) Oil and gas operations

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of such properties are capitalized. Such costs include land and lease acquisition costs, geological and geophysical expenses, carrying charges and costs of drilling. If a project is developed, the related accumulated costs are amortized against future income from the project. If a project is discontinued, the accumulated costs are written off to income in the year the project is discontinued.

d) Fixed assets

Fixed assets are stated at cost net of depreciation which is calculated based on the estimated useful life of each asset using the diminishing balance method.

e) Development costs

Development costs are amortized on a straight-line basis over five years.

f) Franchise rights

The franchise rights represent the initial payment under a licencing agreement for the exclusive rights to manufacture and use in Canada solar collectors and other apparatus in the field of the agreement. It is amortized over the term of the agreement on a straight-line basis.

g) Income taxes

The Company provides for its income taxes on the tax allocation basis.

2. Inventories

	1980	1979
Land for resale	\$ 5,608	\$ 5,608
Solar inventory	836,866	149,118
	<u>\$842,474</u>	<u>\$154,726</u>

3. Investment

The Company purchased during the year a 50% equity interest in Solarplast Ltd. for a cash consideration of \$25,002 and 12,500 treasury shares of the Company.

4. Oil and gas interests

Oil and gas interests represent participations at varying rates in the exploration for and development of oil and gas properties.

5. Fixed assets

	1980			1979
	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	\$110,199	\$13,322	\$ 96,877	\$ 14,801
Office furniture and fixtures	29,562	6,410	23,152	3,205
Rolling stock	14,338	6,536	7,802	4,263
Leasehold improvements	25,775	4,390	21,385	2,511
	<u>\$179,874</u>	<u>\$30,658</u>	<u>\$149,216</u>	<u>\$ 24,780</u>

6. Capital stock

During the year a total of 612,500 shares were issued as follows:

500,000 shares under a fixed price offering at \$3.25 per share (net of issue expenses of \$134,381)	\$1,490,619
100,000 shares at \$2.25 per share under a share option granted as partial consideration to the agent for services rendered in connection with the fixed price offering	225,000
12,500 shares at \$3.10 per share to acquire an interest in Solarplast Ltd. (see Note 3)	38,750
<u>612,500 shares</u>	<u>\$1,754,369</u>

7. Capital stock option

During the year the Company established a stock option plan for its employees and allocated 180,000 shares for this purpose. During the year 78,000 shares have been set aside to cover options granted to employees. These options are exercisable over a period of five years at \$3.10 per share.

8. Potential tax benefits

The Company has non-capital losses of \$176,156 and deferred exploration and development expenditures of \$576,118 available to reduce future taxable income. Deferred exploration and development expenditures includes an amount of \$155,506 which has no expiry date and is only available to reduce future resource taxable income from the oil and gas properties of the Company owned at October 2, 1979.

These potential tax benefits are not recorded in the accounts.

The non-capital losses expire as follows:

December 31, 1982	\$ 62,871
December 31, 1983	78,899
December 31, 1984	34,386
	<u>\$176,156</u>

9. Commitments

The Company has guaranteed bank indebtedness of its affiliated company up to a maximum of \$75,000.

The Company is committed under the franchise licencing agreement to minimum royalty payments of \$75,000 U.S. for the period January 1, 1981 to February 28, 1984.

10. Related party transactions

The Company purchased during the year \$311,000 of solar equipment from its affiliated company.

11. Government assistance

During the year the Company obtained government assistance of \$296,789 of which \$57,000 was receivable at December 31, 1980. This assistance was credited to income for an amount of \$264,137 and the remainder was deducted from the cost of fixed assets. Management is meeting the terms of the assistance agreements and no liability for repayment of such assistance under various contingency clauses is foreseen.

12. Contingencies

The Company has commenced an action against two former suppliers for \$1,500,000 for negligence and breach of contract in connection with defective swimming pool solar collectors no longer marketed by the Company. One of the suppliers has also sued the Company for alleged copyright infringement relating to certain advertising of swimming pool solar collectors. The amount claimed is \$500,000.

As at December 31, 1980 the Company had outstanding letters of guarantee for a total of \$102,647 (1979 - \$26,762).

13. Statutory information

Directors and officers

Number		Remuneration	
1980	1979	1980	1979
Directors	7	\$ 18,000	\$ Nil
Officers	6	181,878	13,750

Four (1979 - three) officers are also directors.

14. Pro-forma statement of income

On October 2, 1979, Thermo-Solar and Quebec Manitou Mines Limited amalgamated under the provisions of The Business Corporations Act (Ontario) and continued as one corporation under the name of Petro-Sun Inc.

The pro-forma statement of income for the year ended December 31, 1979 presents the results of operations of Thermo-Solar Inc. and Quebec Manitou Mines Limited as if the two companies had been amalgamated on January 1, 1979.

CORPORATE DATA

DIRECTORS

Daniel E. Presley
Toronto, Ontario (Canada)
Manager Advertising
Director and Sales Promotion
Texaco Canada Inc.

Gerald M. Curtis
Hampstead, Quebec (Canada)
President, Magnetics International Ltd.
Chairman and Chief Executive Officer,
Petro-Sun Inc.

Ned Goodman
Toronto, Ontario (Canada)
Vice-President, Beutel Goodman &
Company Limited

Hubert J. Mockler
Toronto, Ontario (Canada)
President, Sonor Corporation Ltd.
Vice-President, Petroleum
Petro-Sun Inc.

Stephen R. Sharpe
Toronto, Ontario (Canada)
Director and Vice-President, Walwyn
Stodgell Cochran Murray Ltd.

Jacques R. Sicotte
Ville Lorraine, Québec (Canada)
President, General Manager
Petro-Sun Inc.

Michel Sicotte
Ville Lorraine, Québec (Canada)
Vice-President, Sales & Marketing
Petro-Sun Inc.

OFFICERS

Gerald M. Curtis, B. Comm., C.A.
Chairman and Chief Executive Officer

Jacques R. Sicotte, P. Eng., M. Sc.
President
General Manager

Hubert J. Mockler, B. Sc.
Vice-President, Petroleum Division
Secretary

John T. Pappain, B.A. Econ.
Vice-President, Operations

Michel Sicotte, B. Comm.
Vice-President, Sales & Marketing

Raymond Bourgeois, B. Arch.
Vice-President, Production

OFFICES

Head Office
Suite 2314
401 Bay Street
Toronto, Ontario
M5H 2Y4
(416) 868-0500

DIVISIONS

Petroleum Division
Suite 2314
401 Bay Street
Toronto, Ontario
M5H 2Y4
(416) 868-0500

Thermo Solar Division
Manufacturing, Engineering & Research
2915 Pitfield Blvd.
St. Laurent, Quebec
H4S 1L6
(514) 337-2264
Telex 05 25686

Manufacturing, Engineering & Distribution
5035 Timberlea Blvd.
Mississauga, Ontario
L4Y 2N5
(416) 624-5591

Affiliates

Solarplast Ltd.
(Low Temperature Collectors)
1045 Hargrieve Road
London, Ontario
N6E 1P6
(519) 685-1480

REGISTRAR & TRANSFER AGENT

Canada Permanent Trust Company

PRINCIPAL BANKERS

Royal Bank of Canada

LEGAL COUNSEL

Smith Lyons Torrance Stevenson
& Mayer

AUDITORS

Touche Ross & Co.

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
The Montreal Stock Exchange
Symbol : PTS

**The Annual Meeting will be held at
11:00 a.m., May 28, 1981, in the
Johnston Room of Hotel Toronto,
Toronto, Ontario.**

